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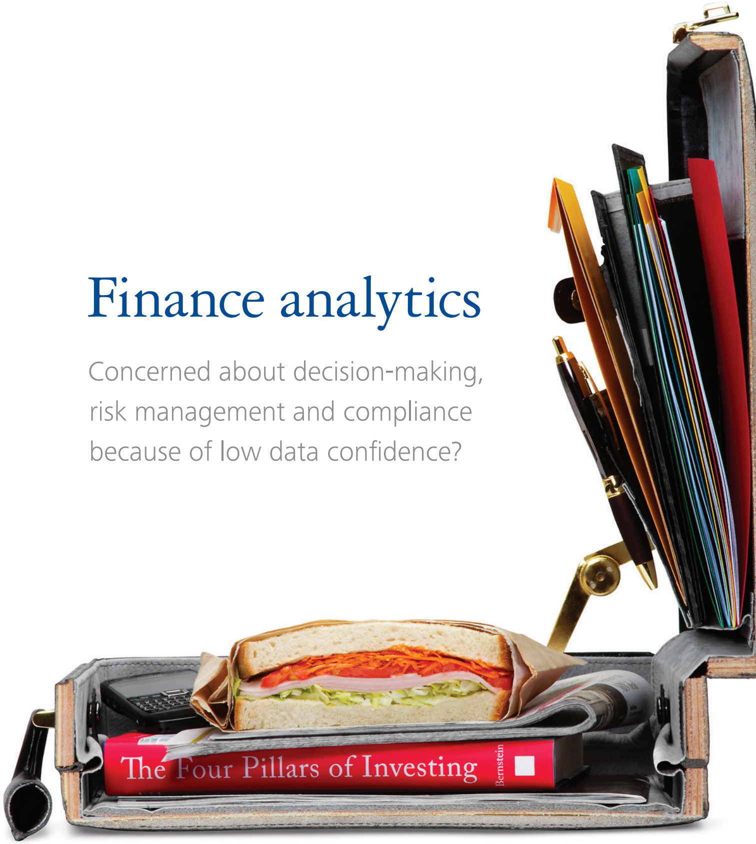
Finance analytics

Concerned about decision-making, risk management and compliance because of low data confidence?



Think big, start small and get it all into a single high-performing place; the right way.

Why it matters now?

Finance data must instill confidence, not impede it

Over the last twenty years the role of finance has expanded and transformed. Today, finance is more complex and certainly facing more demands. Increased expectations for more effective partnering, pressures from investors or stakeholders for greater transparency, continued economic uncertainty and the changing regulatory environment are key drivers influencing CFOs and their teams to be more analytical in discharging their responsibilities. Key analytical areas include forecasting and setting guidance, profitability management, value for money analytics, cost management, cash forecasting and liquidity management, business risk management, regulatory compliance, direct and indirect tax management, prioritizing and balancing capital investments and on-going performance accountability.

Legacy quick fixes, makeshift and uncoordinated processes and engaging more finance people to deal with demands represent a vast, ongoing and unmeasured cost that impedes the CFO's confidence in the organization's data and restricts the efficiency and effectiveness of the modern day finance function to focus on value-added activities that lead to better decisions, lower risk and improved business outcomes.

At a minimum, organizations are either putting in place or have put in place modern back-office and front-office systems to capture transactions and update their general ledgers. However, the variety of systems producing the data is particularly challenging for finance functions. The analytical processes to extract, map, aggregate, analyze, forecast and report financial, tax and operating information from these back-office and front-office systems are still riddled with inefficiency, risk and low-data confidence. When we look under the covers, those organizations are over-vectored in disparate analytical data, disconnected analytical systems, poor information processes and poor analytical models. As a result data can accidentally or easily get dropped or missed and finance not only struggles to meet deadlines with confidence, but also does not have the time to be a more effective business partner.

From a value-added audit perspective there is a real concept of “dead data”. If you’re late in reporting every reporting period, it is stressful for the whole team. As a consequence, no one pauses to look at the data, who is doing what, does it makes sense, or whether finance functions are operating optimally. If this sounds like your organization, it’s time for a time-out and to take stock of the value you are getting from finance.

Organizations may lack the leadership talent or skills necessary to systematically improve their situation. Further, leaders who aren’t engaged or are removed, have little or no idea what goes into it and as a result employees are concerned about saying anything. At the end of the day, the people who feel the most pain aren’t in a position to do much about it. It’s eye-opening when leaders realize what’s actually happening and how it impacts confidence in their data and decision-making.

As the volume, velocity and variety of financial, tax and operating data increases, reliance on disconnected analytical data processs and legacy analytical systems are no longer adequate. As a result, the CFO’s operator and stewardship roles will be even more costly to discharge carrying increased risk and lower data confidence. Further, the CFO’s catalyst and strategic role to influence and support strategy and decision-making will seem unattainable with any level of reasonable confidence.

Finance organizations have a wealth of data and those that are able to make better use of it will have an advantage. There’s been truth to this for years. Today organizations are producing even more data than in the past, so finance analytics is becoming more critical. There are studies that show that those companies that release their earnings faster than their competitors enjoy a higher price to earnings multiplier.

Investors, stakeholders and analysts see restatements not as human error but as bad management. From a forecasting perspective, it is embarrassing when enterprises miss their earnings guidance or when public funds are misused in the case of public sector organizations. Which means finance leadership reputation is also at stake. All this can be mitigated today. Leading organizations are making finance analytical investments to lower their risk profile, gain competitive cost advantage and realize greater strategic value from finance.

The result is a permanent shift to modernize the finance function with improved access to financial, treasury, management, operating, tax and risk data along with modern-day analytical processes and systems (not necessarily new general ledger systems), stronger controls and an analytically savvy finance operating model.

Why finance analytics?

Reduce risk and instill confidence

Finance analytics is the science and art of pulling together data in a meaningful and logical view to support compliance and decision making with confidence. It is about gaining control and governance over your analytical processes because that reduces risk and enables finance and business leaders to reuse critical data, rather than coming up with unique calculations in each situation and spending non-value-added time reconciling or debating the numbers. Many organizations have struggled and will continue to struggle with this until they embrace modern-day finance analytics.

Stay ahead of the demand curve

Modernizing your financial processes, information standards, analytic systems and putting your core finance data in one place will free finance from the vortex of legacy inefficiencies and unleash finance potential to focus on value-added analysis and business partnering. It will increase confidence in meeting shortening compliance deadlines, and accelerate actionable feedback loops by responding to business demands on a timely basis with confidence.

Advancing analysis to integrate a variety of finance and finance supported data sources (sales, supply chain, tax) into your core finance analytics systems will improve line-of-sight to key business issues, bring additional fact-based context to business decisions and reduce the business risks associated with lagging or inaccurate information.

Modeling the business using practical drivers and advanced statistical or visualization methods can help you avoid unpleasant surprises and make better resource allocation and strategy decisions. Finance analytics will help organizations gain earlier visibility and deeper insight into revenue, cost, profitability, cash flow and identify areas that require attention in order to impact positive business outcomes earlier than otherwise possible.

As the organization grows, it may also become more complex. Finance analytics will put in place the building blocks to reduce the cost of finance to serve the organization, further enrichen shared services with value added reporting and analytics services, and even surface opportunities for tax savings or working capital improvements across the organization.

The biggest risk of all may be getting left behind by competitors who mature their core finance analytics capabilities first and attract and empower top finance, treasury, tax and accounting talent to be more effective analytical advisors and partners to the business.

The benefits

Finance analytics solutions benefit organizations through a combination of cost savings, organizational alignment and the enablement of higher-value business risk analysis that was previously unattainable by the finance function.

Finance efficiency/scalability/agility – empower finance, tax, treasury, risk and controllership to do more, with less

There is a constant directive today to do more with less. This is no different in the finance world. The finance function frequently spends a disproportionate amount of time on acquiring accounting, finance, treasury, tax, and risk data and doing non-value-added tie-outs as well as dealing with the nuances of finance data. By adopting modern analytical systems, common data definitions, shared analysis views and improved governance practices, organizations can increase the quality of finance and finance supported information, reduce processing cycle time, improve finance productivity and reduce finance headcount. Imagine doing 50% more work with the available staff today – modernizing and adopting analytics will enable you to get there.

Finance effectiveness – what matters, gets measured, gets done

A modernized finance analytics solution enables follow-on opportunities for business partnering through a focus on metrics, while improving the agility of the organization to respond to emerging opportunities for revenue enhancement and cost reduction. Or in the public sector, quickly and confidently get answers to questions that offer insights to add more value for money – "what are we spending on our programs and are we getting value out of them?"

Margins are so tight in a lot of businesses and growth is increasingly difficult. The ability to make better, more informed and confident decisions based on key analytical performance data compared to your competition is critical. As many companies look to mergers and acquisitions as their growth platform, modernized finance analytics capabilities will bring value when integrating new acquisitions quickly and with confidence. The same strategy will apply when doing what-if scenarios for business carve-outs.

More effective and value added audits

From an audit perspective, finance analytics is intrinsic to what auditors do. One of the greatest pain points for the auditor and the finance organization is getting to the right data. Auditors collect and aggregate financial and management data – the same data as finance analytics! They need to make sense of the outputs and apply professional skepticism on management judgments – that's directly linked to finance analytics data sets. So data for audits is not mutually exclusive. For example, if auditors could see who is not paying on time, interrogate the characteristics of laggards and visualize those trends over time, then that will be more effective from an audit and business value context because the entire data set is analyzed and insights are being derived compared to an audit based on sample sizes and a compliance or regulatory agenda.

Reduce over-confidence bias

Deep confidence in judgment or intuition is often at odds with reality. Successful business leaders are prone to developing an over-confidence in their ability to make gut-based decisions. For business leaders who believe understanding their business is infallible, it can be challenging to hear perspectives that run counter to their intuition. It can be especially challenging when the new perspective is based on sophisticated or complex models that are difficult to grasp.

Modernized finance analytics capabilities enable organizations to mitigate gut-based and intuition-based related risks which may result in material misstatements, misinformed business forecasts, and over-confident what-if scenarios. Taking a risk-factored approach to your finance analytics will enable more informed decisions by understanding the underlying parameters.

Confidence in your forecast does not translate into an accurate forecast. Forecasts should be good enough, risk-factored and free from bias with a sufficient time-horizon to support decision-making that mitigates risks, captures opportunities and improves future business outcomes.

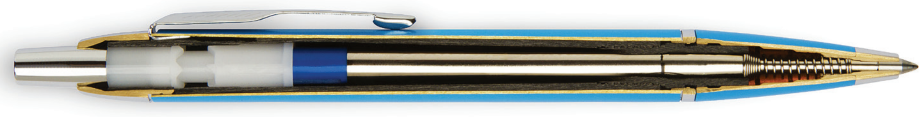
Finance supported and advanced analytics

Organizations that have successfully implemented and realized benefits from core finance analytics are extending their analytics know-how to other areas in the organization such as sales, marketing, fraud or operations to support the organization with predictive analytics and resource allocation decisions that offer an alternative fact-based view compared to one based on gut-feel or complete blinders.

What to do now?

Get the right people involved from the beginning and educate them on the business value of finance analytics

Finance analytics encompasses finance, controllership, accounting, investor relations, tax, treasury, risk and compliance, business leaders and business partner roles. Depending on the size of your organization the stakeholder group may include more or fewer roles, multiple divisions, corporate and some roles may also be combined. In CA Magazine's 2013 annual IT survey results[1], CA's (CPA's) rank analytics third in IT priorities for them, however only 33% feel confident they know what analytics can do for their business. This is a real leadership issue. Show leaders the art of the possible, the options available and how finance and the organization can benefit from finance analytics. Engage experienced advisors to facilitate executive sessions in order to fast-track benefits identification and leadership support.



1 http://www.camagazine.com/archives/print-edition/2013/sep/features/camagazine75384.aspx

Overcome the data barrier – create a roadmap based on centralizing finance analytics data, improving governance and driving more collaborative processes with the business

Capturing and integrating structured and unstructured data (e.g. internal and external commentary, emails, social media feeds) from a variety of sources is the No. 1 factor that inhibits better use of analytics, according to a recent Deloitte Analytics study, "The Analytics Advantage – We're just getting started".

Have a plan that gets your core finance data into one place to support internal management reporting and analysis, profitability analysis, treasury and cash flow data, close data, GAAP adjustments, tax adjustments, consolidations, external reporting and compliance, management commentary, variance analytics commentary, forecasts, outlooks, plans targets and even what-if scenarios. Recognize that these data sets and supporting processes are inter-related and need to be considered together for maximum business value.

- Combine finance data, finance-supported data and key operating data into a common format – recognize the data sets and hierarchies that belong together instead of spending time handling non-value added queries due data silos.
- Place your finance analytics data into a high-performing place, instead of maintaining multiple slow performing and costly legacy databases. Speed enables greater confidence and business value.
- Do not separate reporting, analysis and forecasting data – select software that can handle the volume, variety and velocity of your finance and finance supported data and enables adjunct visualization, reporting, analysis and forecasting.

Recognize that developing an integrated and practical roadmap at the level your business is ready for often requires the help of external finance analytics advisors with experience delivering similar projects.

Think big picture, start small and plan quick wins

Know where you are heading and plan to get there in incremental steps. Recognize there are multiple steps to the journey. Getting started can be fraught with empty promises and embarrassing false starts.

Some organizations may have parts of the foundation in place to get the numbers, but not the facility to thread together what's happening in the business – bottom up and top down. A monthly report, quarterly report or annual reports has more words than numbers. So the value is in the analysis. Once basic modernization is in place, organizations can advance their maturity and build in more value – scenario modeling, driver-based forecasts, finance supported domains such as sales, tax, treasury and risk context – all areas that enable finance to be more effective, catalysts for change and strategists in the business.

Don't be penny-wise and pound foolish

Often times, organizations need to start over with a finance analytics business architect that knows how to communicate to finance and IT and understands finance and finance supported data, finance modeling, regulatory compliance, analytic processes and controls, and modern finance analytics systems.

Know where you need finance analytics advisors and be practical about what you can do on your own as well as your timeline. Independent and experienced finance analytics advisors can help you fast track evaluation processes, design solutions and manage these projects the right way to deliver expected business outcomes.

Take a holistic approach to modernization

If you address process issues, or the operating model or the technology independent of the other dimensions you will not drive the expected behavior or the expected benefits from your finance analytics improvement initiatives. Start with a proof of concept and incrementally address all aspects of the business process, information needs and operating model.

Recognize that modernizing finance analytics will mean changes to existing business processes, timelines, policies as well as roles and responsibilities and even communication methods within finance. It's not just about putting in the software and replacing spreadsheets and legacy reports with new tools. Software is the enabler, but alone it is not the silver bullet organizations are looking for.

Advocate business value and not strict adherence to requirements

It is well documented that successful finance analytics projects follow an agile development approach. So, it is not surprising to learn of failed water-fall finance analytics projects where the risk of failure was high from the start. An agile finance analytics project values:

1. Individuals and interactions over processes and tools; so, enable technical and functional resources to work side-by-side through-out the journey
2. Working solutions over comprehensive requirements documentation; so, time-box incremental releases and use incremental prototypes to deliver maximum value for the business
3. End user and stakeholder collaboration over contract negotiation; so focus on business value and deliver maximum functionality within the stated timelines
4. Responding to change over following a plan; so have the team committed and available to make changes and test throughout.

Bring basic etiquette to your journey

It is well understood that garbage in, means garbage out. Learn to do the basics well and often; these include:

- identify changes in the regulatory and economic environment and understand the impact on your finance and finance supported functions
- rationalize reports and the underlying measures and metrics
- standardize and control the information process used to generate reports and analysis
- standardize the data definitions used to support your financial and business community
- invest in continuous improvement and skills development
- adapt the finance operating model to align with needs of the business

Manage change along the way

Know your stakeholders, extended stakeholders and broader finance audience. Know what is important to them and communicate with them on a recurring basis. Help them understand what is changing, why and how it impacts them. Communicate decisions, timing and when changes will take place. Prepare them for the changes through regular communications, as well as informal and formal training. Find out who needs more help and plan for it. Assign someone or a change group to lead the change management and provide the resources to execute on your change management plans.

The first few steps hold promise for the longer term finance function modernization journey

Measure business value and be deliberate about communicating the changes and the business benefits – provide examples along the way. Getting the first few projects completed successfully will set the foundation for the methods, processes, governance, continued leadership support and the funding for finance and finance supported analytics projects.

Real business value is created when insights are derived and actions are taken that improve business outcomes. Without insight and corresponding action, analytic investments will not pay off. Your responsibility is to ensure that analytics drive actions and positive business outcomes with a high-level of confidence.

Let us help you become confident that you have the right analytics capabilities powering your finance team and your organization.

The transformation challenge is worth the effort

Information silos, data handling inefficiencies and outdated processes prevent many organizations from getting the right business information to the right people at the right time. Still, the perceived complexity of finance analytics is an adoption barrier for many.

All business transformations are multi-faceted. The transition to finance analytics is no different, and the fear of failure is no reason to reject the solution – especially when the business benefits and competitive necessity are so clear.

Data analytics provides the foresight to predict future outcomes, the insight to make strategic decisions today, and the hindsight to analyze and improve on past financial results. By starting small, learning from mistakes and carefully managing change, your analytics initiative can become a cornerstone of your business strategy.

To find out more about how Deloitte finance analytics can help you leverage information across the organization and derive more value from your finance function, please contact:

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